

VZCZCXRO6722
RR RUEHGH
DE RUEHIN #0200 0440935
ZNR UUUUU ZZH
R 130935Z FEB 08
FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 8115
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUCPDOG/USDOC WASHDC
RUEHBK/AMEMBASSY BANGKOK 4071
RUEHBJ/AMEMBASSY BEIJING 7833
RUEHUL/AMEMBASSY SEOUL 9327
RUEHGP/AMEMBASSY SINGAPORE 7229
RUEHKO/AMEMBASSY TOKYO 9583
RUEHML/AMEMBASSY MANILA 0360
RUEHJA/AMEMBASSY JAKARTA 4266
RUEHKL/AMEMBASSY KUALA LUMPUR 3941
RUEHHI/AMEMBASSY HANOI 3523
RUEHBY/AMEMBASSY CANBERRA 4800
RUEHWL/AMEMBASSY WELLINGTON 2066
RUEHHK/AMCONSUL HONG KONG 9096
RUEHGH/AMCONSUL SHANGHAI 1755
RUEHGZ/AMCONSUL GUANGZHOU 0939

UNCLAS TAIPEI 000200

SIPDIS

SENSITIVE
SIPDIS

STATE PLEASE PASS USTR
STATE FOR EAP/RSP/TC, EAP/EP
USTR FOR STRATFORD AND BEHAR
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT
TREASURY FOR OASIA/TTYANG AND HAARSAGER
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, SAN FRANCISCO FRB/TERESA CURRAN, AND NEW YORK FRB MARI
BOLIS

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ECON](#) [TW](#) [CN](#) [HK](#)

SUBJECT: Taiwan Banks on Verge of Entering China Market

REF: 07 Taipei 2647

11. (SBU) Summary. Taiwan's Financial Supervisory Commission (FSC) tells AIT that Taiwan is close to an agreement with Hong Kong and China to allow Taiwan banks to take minority stakes in Mainland China banks via their Hong Kong subsidiaries. The FSC says that Taiwan and Hong Kong authorities are waiting for China's concurrence, which is expected soon. End summary.

12. (SBU) The FSC confirmed local press reports that monetary authorities in Taiwan, Hong Kong, and China are close to agreeing on a mechanism which would allow Taiwan banks to acquire equity in China-based banks through Taiwan bank subsidiaries in Hong Kong. This matches comments the Chairman of Taiwan's Financial Supervisory Commission (FSC) made to AIT in December that a deal could be expected "in a few weeks" (reftel). According to Taiwan regulators and banking contacts, China does not wish to have Taiwan banking regulators perform on-site inspections in China, so the deal allows for on-site inspection to be handled via the intermediary of the Hong Kong Monetary Authority.

13. (SBU) Taiwan's Financial Supervisory Commission (FSC) has yet to make a formal announcement, but Wang Hen-I, Director of the FSC Banking Bureau's Division 1, confirmed to AIT that the FSC and Hong Kong authorities have already reached agreement on supervisory cooperation and are waiting for the PRC's concurrence. Wang said Taiwan's private sector banks have been pushing the FSC to facilitate their access to China.

14. (SBU) On February 13, Fubon Financial Holding President Victor Kung confirmed his understanding that the Taiwan authorities are poised to relax the existing ban on Taiwan investment in mainland financial institutions, and said he expects the new policy to be announced by the end of February. Kung clarified that the new rules

will allow Taiwan firms to buy up to 20 percent of a Mainland bank (i.e., enough to facilitate Fubon's planned investment, via its Hong Kong subsidiary, in China's Xiamen City Bank - reftel). Kung said he was not aware of any PRC objections to the proposed arrangement.

¶5. (SBU) While any relaxation of cross-Strait banking rules would be a major step welcomed by local Taiwan banks, the proposed liberalization is a far cry from open access to the China market. Taiwan banks would only be permitted to take stakes of up to 20% in established Chinese banks. Taiwan banks are not able to set up their own branches. Nothing in this arrangement makes any provisions for Chinese banks entering the Taiwan market, as Taiwan still officially bans all China investments in Taiwan.

Comment

¶6. (SBU) Taiwan banks will see this liberalization as a big win. Local banks tell AIT that their primary targets in the Mainland market are Taiwan business and retail customers. As many of their Taiwan customers have literally moved to China - with approximately one million Taiwan passport-holders currently living in the Mainland and many Taiwan businesses relocating operations there - Taiwan banks have sought ways to attract their business on both sides of the Strait. We expect Taiwan private sector banks will move aggressively to strike deals with Mainland banks as soon as possible. The first is likely to be Fubon Bank's long-pending application to acquire a stake in Xiamen City Bank. Others are expected to follow.

YOUNG